

21.01 Not-for-Profit Accounting – Financial Statements

Overview

The focus of reporting for a not-for-profit organization (NPO) is on presenting basic information for the *entity as a whole*. (ASC 958) NPOs focus on providing delivery of services funded with public or private resources that generally come from contributions or fees that are not taxable. NPO accounting covers **four different groups**:

- Health care
- Colleges and universities
- Voluntary health and welfare (VHWO) (United Way, Red Cross, Greenpeace, Salvation Army)
- All others not above (fraternities, labor unions, museums, libraries, nonprofit organizations)

Accrual accounting is used and the financial statements (F/S) that must be prepared for all such organizations parallel the **three basic F/S** (balance sheet, income statement, statement of cash flows) used by private businesses. Their reporting emphasis is on disclosing the sources of resources and how they were expended. The three basic statements include:

- Statement of Financial Position
- Statement of Activities
- Statement of Cash Flows

Statement of Financial Position (B/S)

The Statement of Financial Position (B/S) reports assets, liabilities, and net assets (equity) of the NPO. Assets and liabilities may be classified or reported in order of liquidity and payment date. Assets with donor restrictions must be reported separately from those that are not restricted. The net asset section of the statement includes two accounts:

- **Net assets without donor restrictions** are those resources of the NPO that are available for the general use of the entity and can include assets set aside by the **board of trustees**, including a board-designated endowment fund, since a true restriction must come from an outside donor. Net assets without donor restrictions are the remainder of the net assets of an NPO after considering those that are subject to donor-imposed restrictions.
- **Net assets with donor restrictions** are those resources of the NPO that are subject to donor-imposed restrictions. For example, a donor may stipulate that a sum be earmarked for cancer research or for the improvement of a building, or may only be used after a prescribed period of time or upon the occurrence of an event.
 - This category also includes endowments. An **endowment fund** is an established fund of cash, securities, or other assets to provide income for the maintenance of the NPO. In this case, the

A **donor-imposed restriction** is any stipulation that specifies a use for a contributed asset that is more specific than just broad limits resulting from the nature or purpose of the NPO, or from the environment in which the NPO operates (ie, the restriction will eventually **lapse** due to **time, use or purpose**).

donor restriction is to protect the original donated amount (aka, the principal or corpus) from being depleted.

- The *earnings* from the endowment, however, may be either *with* or *without* restriction. That is, a portion of the fund's income/gains may be required to be reinvested and added to the principal, or the fund's income or gains may be available for operational expenditures by the NPO.

Not-for-Profit Organization
STATEMENT OF FINANCIAL POSITION

June 30, 20X1 and 20X0

(in thousands)

	<u>20X1</u>	<u>20X0</u>
<u>Assets</u>		
Cash and cash equivalents	\$75	\$ 460
Accounts and interest receivable	2,130	1,670
Inventories and prepaid expenses	610	1,000
Contributions receivable	3,025	2,700
Short-term investments	1,400	1,000
Assets restricted to investment in land, buildings, and equipment	5,210	4,560
Land, buildings, and equipment	61,700	63,590
Long-term investments	<u>218,070</u>	<u>203,500</u>
Total assets	<u>\$292,220</u>	<u>\$278,480</u>
<u>Liabilities and net assets</u>		
Accounts payable	\$2,570	\$1,900
Refundable advance		650
Grants payable	875	1,300
Notes payable		1,140
Annuity obligations	1,685	1,700
Long-term debt	<u>5,500</u>	<u>6,500</u>
Total liabilities	<u>10,630</u>	<u>13,190</u>
<u>Net assets</u>		
Net assets <i>without</i> donor restrictions	115,228	103,648
Net assets <i>with</i> donor restrictions	<u>166,362</u>	<u>161,642</u>
Total net assets	<u>281,590</u>	<u>265,290</u>
Total liabilities and net assets	<u>\$292,220</u>	<u>\$278,480</u>

NPO Statement of Financial Position (B/S) Summary

- Assets = Liabilities + Net Assets
- **Without** donor restriction
 - Unrestricted or restricted by the board of trustees
- **With** donor restriction
 - Temporary restriction that will lapse due to time, use or purpose
 - Endowment funds (permanent)